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The Section 8 program is dead, and even its advocates initially accepted its passing quietly. But now, with no new rental housing production program in place or even proposed, some industry leaders are asking how low-income Americans will be housed.

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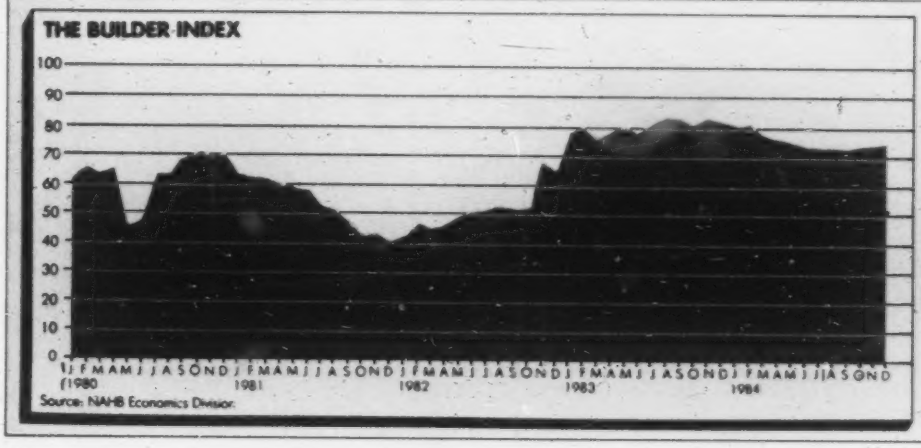
At this point almost everyone is sensitive to saving landmark old buildings. What's the next step? Builder-architect Bill Finnicum thinks he knows: transforming undistinguished old houses in good locations into upbeat residences for young buyers.
(Cover: 208 Brown Street Condominiums, Birmingham, Mich. Photo: Copyright Balthazar Korab)

122—MAKING PEACE
For years they've been feuding. Builders calling architects impractical. Architects calling builders boorish. Finally the two sides seem ready to settle their differences.

OUTLOOK

A HOUSING INDUSTRY ANALYSIS
PREPARED BY THE
NAHB ECONOMICS DIVISION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1981
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1983
1984
Source: NAHB Economics Division

The BUILDER Index increased in December to 76.78 as interest rates continued to recede.

The BUILDER Index measures near-term (3 to 6-month) housing activity. It is a composite of seven housing industry indicators: building permits, Government National Mortgage Association yields, the Producer Price Index (construction materials), framing lumber and plywood composite prices, builders' sales expectations, home buyer traffic and the confidence index of home buying. The base measurement period (100) is housing conditions in July 1978. The BUILDER Index is updated monthly.

Problems Ahead

Michael Sumichrast
NAHB chief economist, Washington, D.C.

Just when declining interest rates seemed to be changing the mood of builders from concerned to optimistic the Treasury Department unveiled its new tax proposals. Almost immediately the optimism started to fade, and builders, especially multifamily builders, began changing their plans for this year.

If adopted, the Treasury proposal would represent the most sweeping change ever in the nation's tax laws. Among the changes are some that would make owning a home and many types of real estate investment less attractive.

That obviously has builders worried. But so does the sense they have that the likely debate over tax reform will divert attention from the deficit, which for most builders and many economists seems the more pressing matter.

Few economists believe that interest rates can be brought down sufficiently, on a sustained basis, until the deficit problem is resolved. And if that problem isn't solved, the economy is headed for trouble. Or as Walter Heller, one of the nation's leading economists, said, "If the White House leadership fails us on the deficit, we will have nothing but trouble ahead."

For now, however, Washington is focusing on tax reform proposals. For housing the greatest potential impact, most agree, would be in the multifamily sector. "Eliminating the investment tax credit and removing the accelerated cost recovery system (ACRS) would eliminate virtually all substantial rehab construction," said Lester Day of American Diversified Capital Corporation, a major multifamily building firm.

Following is a summary of provisions from the Treasury tax proposal that will affect rental housing and homeownership. In some cases, the effect would be beneficial, as is the case in reducing personal tax rates. But in most cases, the proposal would hurt real estate.

HOW DIFFERENT TAX PLANS WOULD AFFECT HOUSING STARTS

Year	Treasury	Bradley-Gephardt	Kemp-Kasten
1986	−143,000	−147,000	− 73,000
1987	−125,000	− 67,000	− 49,000
1988	− 66,000	7,000	0
1989	6,000	41,000	45,000
1990	61,000	119,000	65,000
1991	77,000	167,000	95,000
1992	70,000	188,000	107,000
1993	49,000	209,000	97,000
1994	29,000	209,000	94,000
1995	8,000	213,000	96,000

Source: Data Resources, Inc.

The rental market would be affected adversely by the proposal to reduce the depreciation allowance for rental structures to 3 percent a year, calculated on an indexed basis. Other proposals that would hurt rental housing include those that would:

- Limit investment interest deductions to net investment income, plus $5,000;
- Include limited partnerships and "passive" Sub-S corporations in the calculation of net investment income;
- Remove the investment tax credit;
- Eliminate all special treatment for low-income housing; and
- Repeal rehabilitation tax credits.

While the proposed reduction in personal tax rates would encourage homeownership, many of the other proposed changes would not. For example, if the deduction for all state and local taxes, including property taxes, was eliminated, taxpayers who itemize deductions would end up paying on average $30 more a month for housing. The

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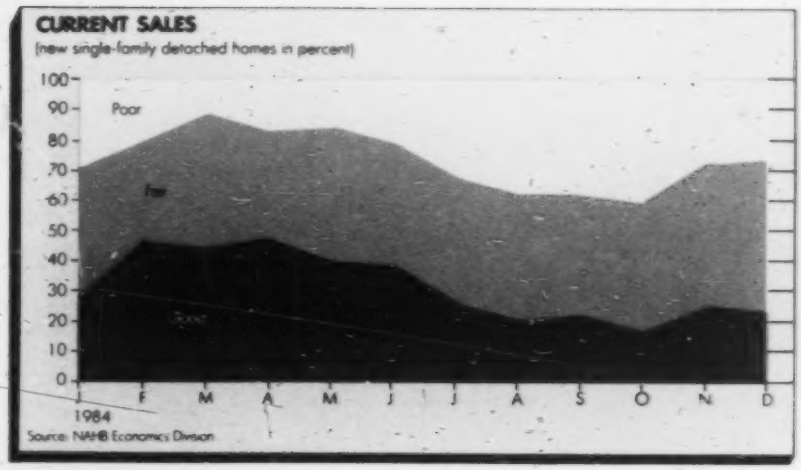
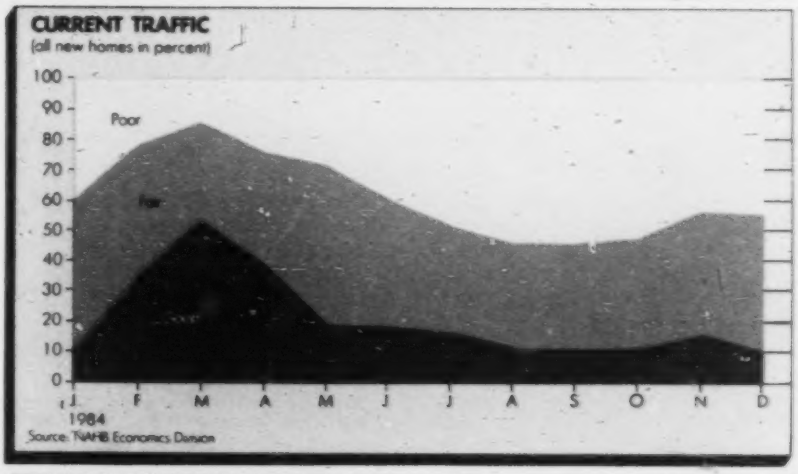
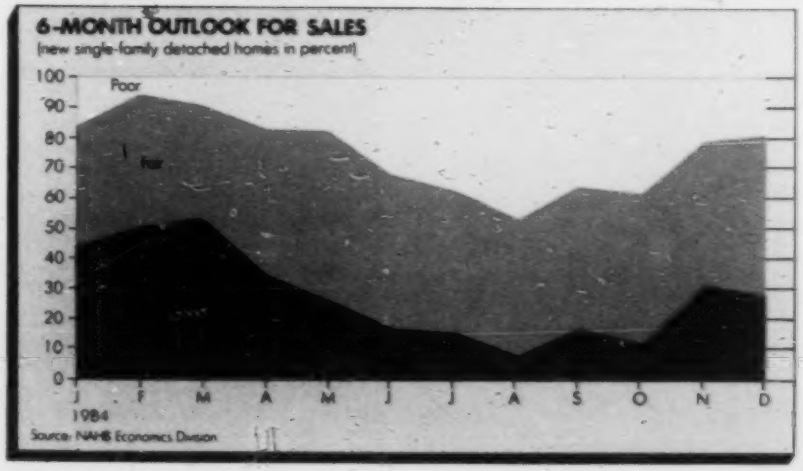






NO MORE PANIC

Builders have taken their fingers off the panic button. From last summer into early last fall they seemed ready to push that button as rising interest rates threatened to push housing headlong into another recession.

But according to the December BUILDER Poll those fears have subsided—along with interest rates. That's not to say builders expect a boom: Only about 25 percent report current sales of new single-family homes as good (top chart) or expect them to be good over the next six months (bottom chart).

Instead the sense seems to be that the market will be steady. About half those surveyed described the six-month outlook as fair. And while some 20 percent expect the market to be poor, that is down dramatically from 47 percent in August.

Current sales and the six-month outlook vary considerably from region to region. In the Northeast 70 percent of the builders report good sales now, and 57 percent expect strong sales to continue. In the Midwest and West, on the other hand, the market is soft now and builders in both regions expect little improvement.

That may be why a builder in Wisconsin said, "This isn't a Mecca for housing," while a New York builder said, "It hasn't been this good in 30 years, and I look for a strong spring market."

The information on this page is based on a survey of approximately 800 builders. The survey, conducted each month for BUILDER by the NAHB Economics Division, asks builders to rate present new home sales, current traffic and the 6-month sales outlook as either good, fair or poor.

DELINQUENCY PROBLEM
Home mortgage delinquencies hit a record high in the third quarter of 1984, according to a survey by the Mortgage Bankers Association (MBA). The rate of mortgage payments at least 30 days past due rose to 5.86%, up from 5.46% in the second quarter. The previous high was 5.76% in the first quarter of 1983. The largest increases in delinquencies came from government-backed mortgages. Delinquent FHA-insured loans rose to 7.57% from 6.99%, and delinquent VA-guaranteed mortgages climbed to 6.63% from 6.12%. MBA blamed the increases on "still historically high levels of unemployment."

CREATIVE COMMERCIAL FINANCING
In a move that could increase investment in commercial real estate, the securities rating firm Standard & Poor's has begun issuing ratings on debt obligations secured by commercial mortgages. The new ratings system is seen as a major step toward development of a formal secondary market for commercial and multifamily mortgages—one that will encourage investment especially by institutional investors such as pension funds. In a related development, the first collateralized mortgage obligation (CMO) backed by commercial mortgages has been issued by Salomon Brothers and Penn Mutual Life Insurance Co. The $205 million privately placed issue is collateralized by mortgages on office buildings, apartment buildings, shopping centers and warehouses.

MORE FOR THE MONEY
S&Ls paid more for their money in the third quarter of 1984, the latest quarter for which statistics are available. The average cost of funds for FSLIC-insured savings institutions climbed to 10.27% from 9.80% in the second quarter of last year, the Federal Home Loan Bank Board reported.

MOBILE UNITS
Mobile homes comprised 5.3% of the nation's housing stock when the 1980 census was taken, the Census Bureau reported recently. Mobile home units totaled nearly 4 million in 1980, up from 2.1 million in 1970. States with the highest proportions of mobile homes were Wyoming, 18%; Arizona, Montana, Nevada and New Mexico, 13% each; and Idaho, 12%.

CONDO COLLAPSE
The condo market remained soft in most areas of the country during the third quarter of 1984 but especially in many Sunbelt cities where plentiful and cheap rentals helped slash condo sales by at least 50% compared with third quarter 1983, according to the most recent survey by U.S. Housing Markets, a publication of Lomas & Nettleton Financial Group. Disappearance of the investor market for condos is a big reason for the drop—investors have constituted as much as 50% of the condo market in many Sunbelt areas and in Philadelphia, Minneapolis and Seattle. Investor interest has been dampened by stricter standards imposed by private mortgage insurers worried about relatively high mortgage defaults by investor buyers.

RESALES REVIVING
Sales of existing single-family homes climbed a healthy 9% in November to an annual rate of 2.89 million units, the National Association of Realtors reported. It was the first rise in six months. The number of resale homes on the market at the end of November totaled 2.45 million or a 10.2-month supply at the November sales pace.

CONTINUED FROM PAGE 11
proposed repeal of single-family mortgage revenue bonds could cost housing 75,000 starts in the first year, while repeal of the installment sales treatment for builder bonds will add $50 to $70 to the monthly payment for a typical new home buyer. Finally, one proposal that in effect limits the interest deduction on second homes—the Treasury proposal doesn't touch the deduction on primary homes—would devastate the resort housing market.

This is not to say, however, that a simplified tax system is all wrong. Not at all. The present tax system is archaic, full of complexities and a heaven for tax lawyers. And through the tax shelter system it distorts economic development. Too many business decisions now are made from tax considerations not market considerations. In construction this accounts for a large amount of overbuilding of office buildings and condominium projects.

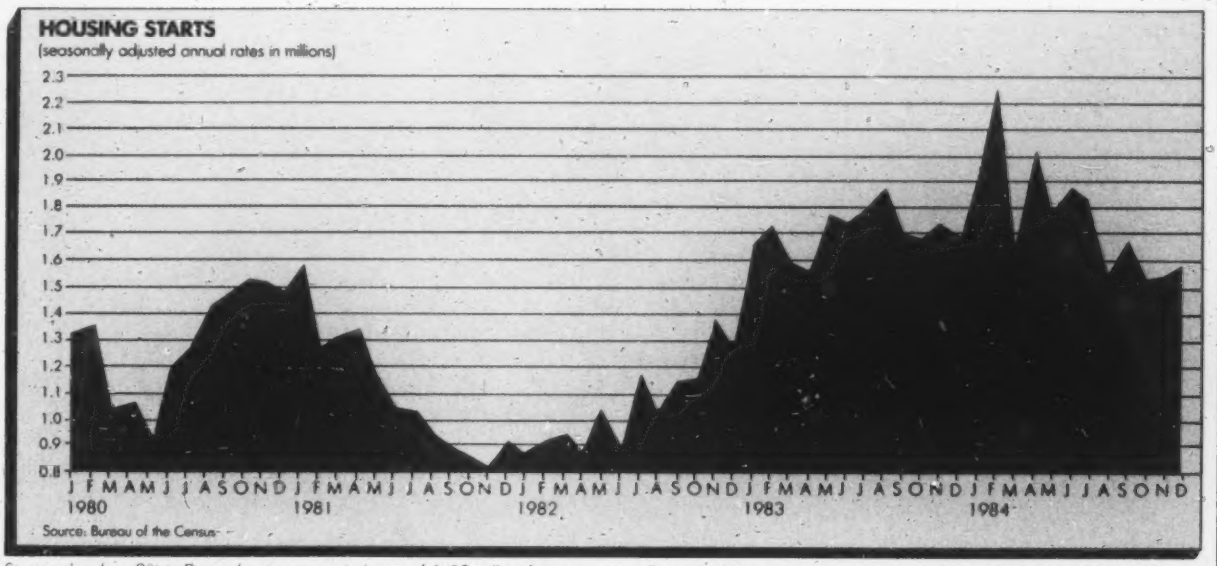
The lowering of individual tax rates to a maximum of 35 percent from 50 percent and lowering the number of tax brackets from 14 to 3 will help. More people at the bottom would pay no taxes and the average tax will drop by 8.5 percent. That will help people save.

But what would the impact be on housing? Most studies trying to measure the potential impact of the proposals agree that in the short term housing will decline sharply. I estimate that starts will fall by about 300,000 units in the first year after the proposal was enacted. Most of the drop would be in the rental apartment sector. But after three or four years most analysts conclude (see accompanying table) that housing would probably benefit, particularly for-sale housing. This is because the mortgage deduction, although worth less, would be virtually the only tax shelter available to most taxpayers.

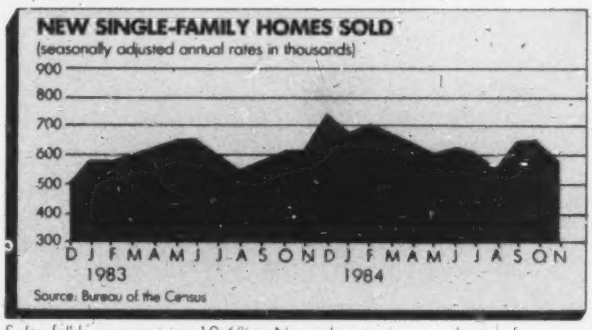
In addition to changes in housing starts, housing prices, assuming there is no decline in interest rates, also will be affected. Lower priced homes, those less than $45,000, will hold their value or the value will increase slightly; however, the most expensive homes, those priced more than $142,000, will decline in value.

Of course, all the forecasted effects of tax changes are only crude "guesstimates." They do, however, suggest a great deal of uncertainty in the months ahead, and uncertainty alone will have an adverse effect on the market.

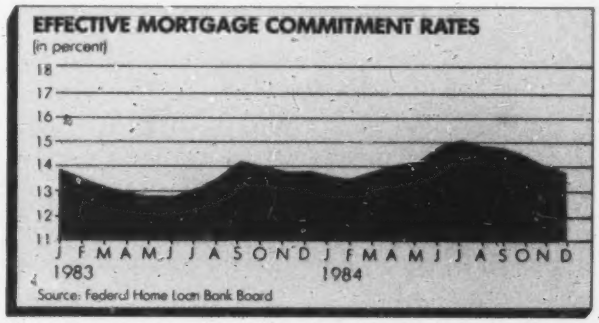
OUTLOOK/STATISTICS



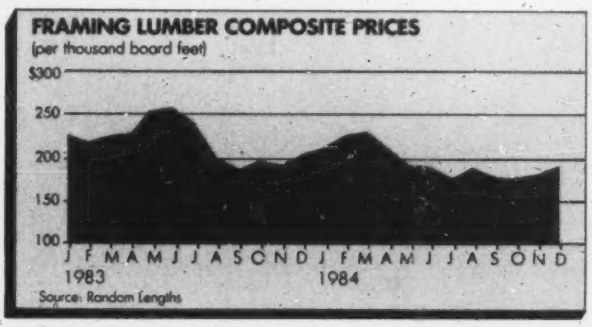
Starts edged up 2% in December to an annual rate of 1.59 million from an upwardly revised November rate. That was 6% lower than the December 1983 rate. Total 1984 starts were 1.75 million, up 2.4% from 1983.



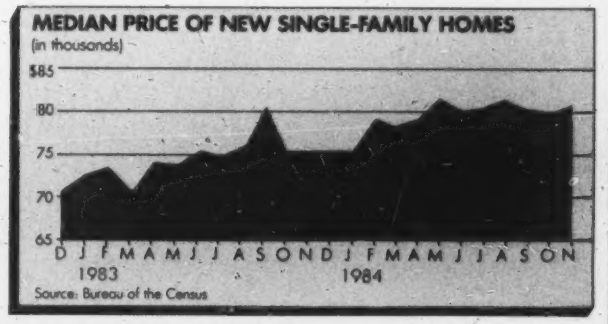
Sales fell by a surprising 10.6% in November to an annual rate of 591,000, but housing analysts believe activity is stronger than the preliminary November numbers indicate.



Mortgage rates continued to tumble in December. Fixed rates fell 27 basis points to 13.82%-the lowest in nine months. Uncapped adjustable rates declined 34 basis points to 12.23%.



Lumber prices increased 6.5% in November to $196 per thousand board feet. It was the second straight monthly rise after prices fell during most of the year. The November price still was lower than a year earlier.


MEDIAN PRICE OF NEW SINGLE-FAMILY HOMES
(in thousands)
$85
80
75
70
65
D J F M A M J J A S O N D J F M A M J J A S O N
1983
1984
Source: Bureau of the Census

The median price of new single-family homes rose by $1,700, or 2%, in November to $84,700. The November price was $5,800, or 7.6%, higher than a year earlier.

LIFE AFTER SECTION 8

PENELOPE LEMOV, BUSINESS EDITOR

Section 8, the keystone of subsidized housing programs, is gone. This victory for the president's budget-cutting men represents a reversal of America's 50-year-old housing policy traditions. And, for many cities and builders it now raises an agonizing question: How will low-income Americans be housed? Four approaches—see accompanying stories—are pointing the way.

George Brady owns a long memory, one that harks back to the 1960s when American cities were in ferment and voters, the president and Congress were committed to better housing for everyone.

"It was a time when housing for low and moderate-income people was a God, mother and American flag issue," recalls the president of Washington, D.C.-based National Corporation for Housing Partnerships (NCHP), the publicly held BUILDER 100 company formed by congressional mandate 14 years ago to help meet low-income housing needs. "People wanted it, and there was support for housing programs in Congress and the administration."

So strong was that support that the Department of Housing and Urban Development (HUD) was created in 1965, and with it programs to encourage production of low and moderate-income housing. By 1974 that support was translated into Section 8, a program designed to produce new rental housing through the private market. The federal government subsidized the rent on each unit built for a low to moderate-income household as well as rents on existing units. A variety of interest rate subsidies (Ginnie Mae Tandem, tax-exempt bonds) minimized builders' loan costs. In its heyday Section 8 produced more than 100,000 units a year and signaled that the full force and pocketbook of the federal government backed better housing for everyone.

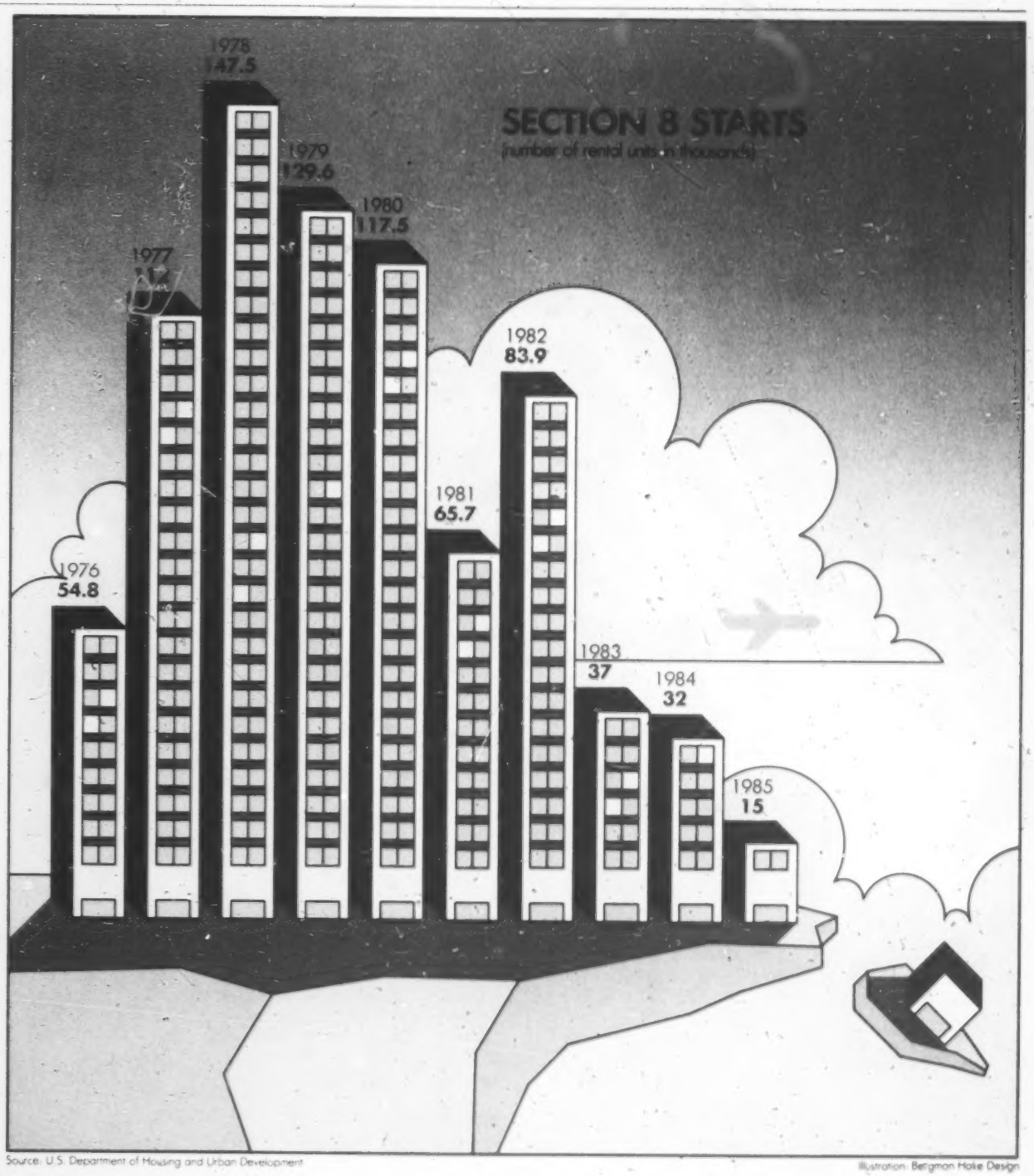
Times, of course, change. "The public level of concern is different now," Brady admits. "The pendulum is swinging in a different direction."

Section 8 production subsidies are all but gone, budgeted out of existence in 1982. The few projects still in the pipeline should be finished in a year or two. There is nothing to take its place.

"Subsidized housing? I remember subsidized housing," muses a builder whose memory short-circuits Brady's. "I have a picture of one on my wall—right up there next to a Studebaker and an Edsel."

While even its proponents had misgivings about Section 8's new production cost effectiveness—subsidies for each new construction unit nearly tripled in eight years—many people think the needs the subsidized housing program addressed are more acute than ever. Baltimore has 40,000 people on a waiting list for public housing. In Denver, families wait up to three years for assisted housing. New York City, Boston and San Francisco have closed or may close some waiting lists. In Shreveport, La., a third of the rental stock is in substandard or dilapidated condition and even so, there's a shortage of that type of housing. "We have two and three families living in one house; we have a tremendous number of people with no place to go," reports George Gray, Jr., executive director of the Shreveport Rehabilitation Project. The numbers from Los Angeles and Chicago are even worse, and the list goes on. Overall, 51 of 66 cities polled recently by the U.S. Conference of Mayors reported demand for assisted housing increased during 1983 while the supply diminished.

Housing advocates claim that of the 12 million poor households (those earning less than 50 percent of median income), at least 9 million are living in overcrowded, substandard units or are paying more than 30 percent of their income for housing. Moreover, the gap between renters' income and the price of affordable rental housing has widened by 35 percent in the last decade, according to Barry



Source: U.S. Department of Housing and Urban Development

Illustration: Bergman Hake Design

A GLOSSARY OF HOUSING SUBSIDY PROGRAMS

Public Housing: The first (1937) subsidized production program for low-income housing. Federal government pays principal and interest on bonds issued by local authorities. Still going, but not too strong: level of funding (5,000 units) at lowest ebb this year. HUD-administered.
Section 236: Below-market interest rate program. Began, 1968; terminated, 1973, during Nixon moratorium.
Rent Supplement Program: Rental assistance for low-income families, 1960s. Supplement no longer in effect.
Section 202, Housing for the Elderly and Handicapped: Direct low-interest loans to nonprofit sponsors to build housing for elderly and handicapped. Began in 1969; was producing 20,000 units a year; current funding, 12,000 units a year.
Section 23, Leased Housing: Subsidized rent program. Originated, 1965; curtailed in 1973. Forerunner of Section 8 existing units program.
Section 515, Rural Rental Housing Loans: Direct mortgage loans (usually at 1 percent) for construction or substantial rehab of rental or cooperative housing in rural areas. Administered by FmHA. Program may be terminated.
Ginnie Mae Tandem: Interest rate subsidies. Began in 1970; terminated, 1982.
Tax-Exempt Bond Financing: Low interest rate loans. Used extensively with Section 8; may be terminated.
Section 8: Rent assistance tied to units in new projects (Section 8 production) and existing projects. Interest rate subsidy programs used extensively in conjunction with program. Began, 1974; terminated, 1982.
Experimental Housing Allowance: Vouchers for rents in private market. Began in 1973; ended, 1980. Forerunner of present demonstration voucher program.
Section 17, Rental Rehab: Matching public grant/private financing for moderate rehab of existing rental units. Used in conjunction with rent vouchers. First started, 1983.
Demonstration Voucher Program: Housing allowances in which low-income households can choose housing and apply allowance to rent. Congress funded a pilot project which will assist 56,000 low-income families.
Housing Development Action Grants (HoDAG): Funds to assist localities in new construction or substantial rehab of rental housing. Administered by HUD. Began in 1984; funded for 1984 and 1985; may be terminated, as may Community Block Development Grants (public improvements) and Urban Development Action Grants (increase tax base; add jobs), both of which allocated money to local communities and were often used for low and moderate-income housing projects.

Zigas, president of the National Low Income Housing Coalition. NAHB's recently released mortgage financing report by the multifamily task force found median house prices have increased 10 percent since 1980 while rental prices have increased 37 percent.

While many housing advocates look at Baltimore's, New York City's, Los Angeles's, San Diego's and other cities' housing shortages and believe there is an overwhelming need for more stock for low-income households the Reagan administration's position is that the housing problem for low and moderate-income renters is one of affordability, not availability. Administration spokesmen point to national vacancy rates of 5.6 percent—5 to 6 percent is considered normal.

Anthony Downs, a senior fellow in economic studies at the Brookings Institution, a Washington, D.C., research organization, has a similar overview. "The problem is poverty. People don't have incomes to pay for housing."

Speaking at a fall NAHB conference, "Housing America—the Challenge Ahead" (BUILDER, January 1984), HUD Secretary Samuel Pierce spelled out the administration's housing agenda. "As our underlying program we have vouchers to help people pay their rent. Because there are pockets of shortages, we have a modest rehab and building program. We have a building program for the low-income elderly and are improving constantly our public housing through rehabilitation, modernization and improved management. And that's our basic program right now."

The 1985 budget allots funds for 100,000 new units or households: 12,000 Section 202 (elderly/handicapped), 76,000 rent vouchers (including existing Section 8 subsidies), 5,000 moderate rehab (Section 223 F), 5,000 public housing and 2,000 Indian housing. In addition, a new program, Housing Development Action Grants (HoDAG) has awarded $288 million worth of grants which should yield 14,500 units, 20 percent of which are earmarked for low and moderate-income tenants.

The voucher system, though, is the cornerstone of administration policy. Vouchers are rent subsidies or allowances which are awarded tenants on a basis of income and which are used toward rental payments. Those receiving vouchers can use the money to rent existing apartment units or houses in the neighborhoods of their choice. Housing officials say they can help house 10 times as many poor families with vouchers as they could spending the same money on construction subsidies.

"There are very few markets in this country where, if you had lots of vouchers and rehab money, you couldn't house your poor people because of lack of stock," claims Nancy Chisholm, HUD's director, Office of Policy for Public and Indian Housing. At the same time, she notes that the current level of funding is woefully inadequate. "At the rate of 100,000 a year, it will take us 90 years to meet the needs of our currently under-served population."

Leon Weiner, a Delaware-based builder and long-time activist in housing policy, rejects the voucher system as a solution. "It's the reckless throwing of money at a problem. Talking about affordability is fine, but it doesn't mean a thing

TAX-EXEMPT, SAUNA AND ALL

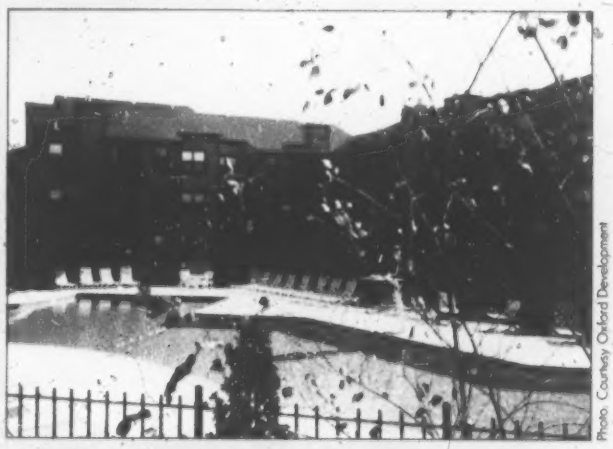


Photo: Courtesy Oxford Development

Two clubhouses, four tennis courts, two swimming pools, volleyball courts, gazebo, sauna and picnic area with a small pond are available for the relaxation and recreation of tenants at Oxford Development Corp.'s 640-unit Shenandoah Crossing in Fairfax, Va.

The project, which was designed by Bucher Meyers, Silver Spring, Md., was financed by a $31,500,000 tax-exempt bond issued by the Fairfax County Redevelopment and Housing Authority. The 7⅝ percent interest rate on the bond went a long way toward helping Oxford keep project costs down.

As is usual with a multifamily project financed by tax-exempt bonds, 20 percent of the units at Shenandoah are set aside for those earning less than 80 percent of median income. In Fairfax, that's a maximum of $26,000 a year. Where market rate for a one to three-bedroom Shenandoah apartment ranges from $525 to $695, the set-aside units range from $370 to $470. And, as is becoming increasingly common for projects financed by tax-exempt bonds, Oxford found the project had to include design extras that are not usually associated with low or moderate-income housing developments. For instance, all units have carpeting and decks or patios off the living room. Two-thirds of the units have fireplaces and many have bay windows. The building's exterior is beveled cedar siding and the project's entrance is lushly landscaped.

"Someone could argue this is too lavish for low and moderate-income housing, but in order to ask market rate rents that are high enough to subsidize the 20 percent set-aside units, you have to build amenities," contends Thomas Bozzuto, regional partner, Middle Atlantic Region for Oxford, a BUILDER 100 company based in Bethesda, Md.

The project, which began leasing in March, has been renting out at a rate of 52 units a month, considerably ahead of the usual healthy pace of 20 to 30 units a month. Renters of both the market rate and set-aside units are young professionals.

OLD NEW HAMPSHIRE HAD A FARM

Photo: Paul Avis

It doesn't look like a farmhouse or housing for farmhands, and it isn't. But Birchwood, a 32-unit project located in Hooksett, N.H., was financed with a Farmers Home Administration loan. Under its Section 515 program, FmHA makes direct mortgage loans for new or substantial rehab rental construction in areas where the population is less than 10,000. Hooksett, which sits midway between Concord, the state capital, and Manchester, the largest population center, qualified.

Utilizing FmHA's 1 percent, 40-year, $1.3 million loan, the Northeast Community Development Group, Concord, built Birchwood at a cost of $40,000 per unit. Rents for the one or two bedroom townhouses are $275 to $330 a month. Comparable rents are $500 to $550.

Occupancy in an FmHA project is limited to low and moderate-income families earning less than 80 percent of median income. Median income, as defined by FmHA, however, is much higher than other federal definitions, such as that used by HUD. Where HUD would limit tenancy to those at 80 percent of median income or, in Hooksett, $14,500, FmHA's 80 percent of median income maximum for Hooksett is $23,500. In addition, each tenant is allowed an additional $500-a-year income for every child in the family living in the unit. However, unlike other federally backed programs (such as tax-exempt bond financing or HoDAG) which allow 80 percent of units to be built for market rate renters and 20 percent set aside for low and moderate-income renters, FmHA demands that all the units be occupied by those meeting median-income requirements. Northeast hasn't had any problem finding appropriate tenants, many of whom work in either Concord or Manchester. The project was fully rented when it opened in April and maintains a long waiting list.

The eight, Cape Cod-like buildings were designed by Architects Four, Manchester, to fit into their New England setting. With a 32-acre site, much of which was unusable, and one-unit-per-acre zoning, Northeast had Matarazzo Design, Concord, develop the land plan, eventually approved by Hooksett authorities, to place 32 units on three-quarters of an acre and leave the rest of the land in its natural state.

if you don't do something about high interest rates and the unavailability of housing in appropriate locations."

Other critics point out that vouchers do nothing to maintain the quality of housing stock or bring more units up to standard. Also, though vouchers may work in markets where there is adequate stock, they tend to be unusable in areas where there are housing scarcities.

"Even on a regional basis, you may have vacant apartments in a middle-class neighborhood but low-income people can't move there—there's no public transportation to get them to their jobs or the grocery store, nor would they be accepted there," observes Robert Brehm, president of Bickerdike Development Corporation, a nonprofit community development company in Chicago.

But the deeper argument is over whether availability is a major concern and whether it is one the federal government should address. Certainly, the end of subsidized production programs combined with massive federal cuts in public housing construction and rehab programs at a time when the private sector is converting many low and moderate-income apartments into higher priced condos would seem to telegraph the disintegration of low-income housing stock.

NCHP's figures forecast the problem. Two years ago NCHP built 4,500 new units for low and moderate-income households and acquired 1,000 existing units for rehab; last year they built 1,000 new and acquired 4,500 rehab; this year they're not doing any of either for the low-income market. "Ninety percent of our development had been for low-income housing," Brady laments. "We've changed direction. I feel good about the company, but not about low-income housing needs."

NAHB's multifamily task force report cited a shortage of affordable, decent housing for low and moderate-income renters, a situation exacerbated by high interest rates, tax changes and a federal legislative climate that precludes construction. Thinking of the needs of individual cities like Los Angeles, Baltimore and New York, task force chairman Lester Day, president of American Diversified, a Costa Mesa, Calif., BUILDER 100 company, charges, "There's a crying need out there. It will become much more pronounced before the situation changes."

Critics of current policy suggest there may be a hidden cost to ignoring these unmet housing needs. Dan Grady, a San Diego builder who built more than 1,500 Section 8 units, sees scarcities decreasing the mobility and therefore increasing the concentration of poor and racial groups. "Eventually that will flow into de facto segregation in our schools, creating additional severe social problems."

In Brady's opinion, the government is not only turning its back on ensuring a supply; it has backed away from formulating a housing policy based on housing needs. Housing policy now is being hammered out in the wrong forum, he notes ruefully. "It used to be a deliberate, thoughtful process of the housing committees in Congress; now it's done in the dark of night by tax committees with no understanding of the development and maintenance of housing."

With Section 8 gone and HoDAG a small experimental

SCATTERED SITES ARE ON TARGET

New public housing projects are hard to find: Funding has dried up during the past three years. Nonetheless, the housing authority in Charleston, S.C., managed to wangle a direct loan from HUD to build 150 public housing units on scattered sites throughout the city's historic Radcliffeboro district. One good argument it had on its side: Low and moderate-income tenants had been displaced during revitalization activities in the area and these units would replace lost housing.

Because the units were going up in a historic district, Charleston's Board of Architectural Review, the State Archives Commission and the President's Advisory Council on Historic Preservation had to approve the design. Naturally, since the units were being built with federal funds, the project also had to meet federal design constraints and statutory cost limits.

Though built for only $27 a square foot, the Radcliffeboro buildings are compatible in design, attention to detail and density (12.6 per acre) with Charleston's 18th and 19th-century architecture. In fact the project won a design merit award from the Georgia chapter of the American Institute of Architects. One particular Charlestonian feature Atlanta-based architect Richard Bradfield picked up was the side porch entry with a second-floor balcony which makes the otherwise contemporary-looking buildings comfortable in their traditional setting. The porches offer privacy and permit cross ventilation in the narrow buildings.

The 690 to 1,280-square-foot units have been fully occupied since completion in September 1983. Rents for the one to three-bedroom units are set at 30 percent of an eligible tenant's income.

Scattered site is one of several development methods allowed within the present public housing construction program. Scattered site projects can be rehab or, as in this case, new construction; it can be turnkey, in which a builder builds the project and the local housing authority buys it, or developed by the housing authority which contracts the work out to a builder, as it was in this case, to Mitchell Construction Company, Vidalia, Ga.

Photo: Paul G. Beswick

LET'S MAKE A DEAL

Photo: Courtesy San Diego Housing Commission

In its undeveloped state, University Canyon didn't hold out much promise. The site was steep, landlocked, pocketed with gullies and located between exclusive single-family homes, low-rent areas and university grounds. However, because San Diego suffers from an intense housing shortage—1 percent vacancy rate—and an even more intense low-income housing problem, the San Diego Housing Commission offered to go an extra mile for a developer who could come up with a multifamily proposal that included subsidized units.

San Diego-based Collins Development's winning proposal combined a 120-unit, low-income project atop a broad hill with a 340-unit, upscale condo development downwind and across a shallow gully. The resulting project is a public-private joint venture in which post-development profits will be shared 40 percent public/60 percent private.

The builder took the pre-development risks and provided money for up-front expenses; the public sector's contribution came in the extras the housing commission provided to keep costs down and make the project feasible. Because the site was landlocked, the commission provided access by arranging a partial land swap with the nearby university. The commission then expedited processing, awarded Collins a 25 percent density bonus, helped in obtaining FHA insurance and issued tax-exempt bonds for financing. Also, the commission structured the low-income apartments on leased land so it could deliver land to the project at less than full market rate. This "write down" further helped meet affordable rent-level objectives.

The luxury condos, designed by Berkus Group Architects, Newport Beach, Calif., with a high-tech look, sold quickly at $107,000 to $129,000 for two and three-bedroom, 1,000 to 1,400-square-foot units. Yuppie buyers didn't mind—in most cases didn't question—the "public" housing across the way.

The subsidized units, while not as dramatic as the condos, were designed by San Diego architect Dale Naegle with a pleasant earth-tone stucco appearance. The one to three-bedroom, 635 to 1,050-square-foot units were the last Section 8 new construction project in San Diego. Ben Montijo, executive director of the commission, points out that the project could be done today utilizing local rent subsidies but, more important, the public's 40 percent share of the profits from the overall project will help finance or subsidize the rents on other public-private ventures.

program, what new low and moderate-income construction is going up is being financed by tax-exempt bonds issued by local housing authorities. By one estimate, these bonds are being used to finance more than half of all new apartment projects under way in the U.S. The interest savings on the tax-exempt bonds are passed on to builders who are then committed to setting aside at least 20 percent of their units for tenants earning less than 80 percent of median income. The lower interest rate helps keep down the overall cost of the project; rentals on the market rate units are usually adjusted to bring down the rents on the set-aside units. With the interest rate subsidy but without a Section 8-type rent subsidy, builders are reporting that they can no longer build for low-income tenants. The overwhelming majority of the 20 percent set-aside units are priced for those making the full 80 percent of median income. In a few jurisdictions where the rental market is strong and market rate rents high, builders are required to go below 80 percent. For example, in Montgomery County, Md., an affluent suburb of Washington, D.C., the Housing Commission requires set-aside units be priced for those earning 65 percent of median income.

In the majority of markets, however, the numbers don't allow that deep a rent cut—even when Community Development Block Grants or Urban Development Action Grants are available. In San Diego, reports Grady, it's impossible to get rents below $500, which requires an $18,000 to $20,000 income. "If you earn $15,000, you can't afford to live here."

His words are reiterated by the smaller-scale experience of Bickerdike. In order to turn a dilapidated house, which was donated to them, into six rental units, the community development company raised $20,000 in National Trust Inner City Venture Fund grants and loans, $85,000 in city grants and 3 percent loans and $35,000 in private investment. The company still was unable to bring rents down below $250 to $300 a unit, which was in excess of what neighborhood people could afford.

There are many who argue that moderate-income housing, which is served by tax-exempt bond financing, is where federal incentives and assistance should go. That is, as moderate-income needs are served, units trickle down to lower income tenants. Downs agrees, noting that trickle down has been housing people in this country for 200 years.

Phil Brownstein, Federal Housing Administration commissioner from 1963 to 1969, sees things differently. "Trickle down is feeding pigeons by feeding the horses. You have to work in both directions."

And soon even the moderate-income incentives may disappear. Tax-exempt bond financing is an endangered species as Congress and the administration key in on revenue enhancements by closing tax loopholes.

Given the present climate, George Brady probably is right when he predicts that "we won't get back to a commitment of housing for everyone in this century."

And yet, the life force goes on. With the housing monkey now on their backs, local jurisdictions are teaming up with community organizations and builders to explore the art of the possible. Some of the more interesting programs are:

- Housing Trust Funds, the brainchild of David Rosen, an Oakland, Calif., community development consultant, would pool the short-term interest on real estate sale and mortgage escrow funds (interest which now goes to the bank) and use that interest to subsidize low-income housing. Each state must pass enabling legislation to set up the fund.
- The Enterprise Foundation, the mission of James Rouse, founder of the Rouse Company, is establishing a nationwide network of neighborhood groups to provide housing (and other services) for low-income residents. Funds for the nonprofit foundation come from a for-profit development company which is wholly owned by the foundation.
- Montgomery County, Md., which levies a 4 percent condo conversion tax, is investing the revenue and using the interest—about $3.2 million this year—to subsidize rents in projects financed by tax-exempt bonds.
- Atlantic City, N.J., is using casino taxes to subsidize rents. The first project to utilize these subsidies is a $22 million, 314-unit apartment complex, the Lighthouse, which was financed by tax-exempt bonds and is a joint venture of NCHP with Friedberg Greene Enterprises and Sencit Development Company, both of Atlantic City.
- San Francisco has an Office Housing Production Program which uses a complicated formula based on square footage and potential job profiles to determine how many housing units an office developer must supply and at what income level. The developer provides the housing or pays a fee.
- The Massachusetts Housing Authority's SHARP (State Housing Assistance for Rental Production) program is an interest rate subsidy applied on top of tax-exempt bond interest savings to further lower rents on projects financed by Housing Authority-issued bonds. SHARP started this year with a $5 million appropriation from the Massachusetts legislature. To date SHARP has approved 23 rehab and new construction projects which should yield 2,000 units—25 percent of which will be set aside for low-income tenants.
- The San Diego Housing Commission's executive director, Ben Montijo, takes the position that the help the commission gives builders—tax-exempt bond financing, writing down of land costs, density bonuses—is the moral equivalent of cash. Therefore, the commission should be a joint venture partner and participate in the appreciation or positive cash flow of a project (see page 116). Money thus raised—it will be $24 million by 1988, based on projects already under construction—will be used to bring down costs on other low/moderate income projects.
- The National Urban Coalition, Washington, D.C., can't offer subsidies or financial backing, but they have organized the Community Information Exchange, which has a computerized listing of low/moderate income projects that have been built using a variety of creative approaches. The service puts neighborhood organizers, community developers, city officials and builders in touch with each other.

No one pretends these attempts are anything more than what Brady calls "bites and nips" at the problem. There still is a question, he says, of whether "the totality of what's being tried has any real impact on need." And yet, if these efforts aren't made, it will be a long hard—and for many, homeless—wait till the pendulum swings back.